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## THE ETHICAL BASIS OF DISTRIBUTION AND ITS BEARINGS ON TAXATION.

BY PROFESSOR T. N. CARVER, PH.D., OBERLIN COLLEGE.

Taxation can not be said to be a question of financial policy merely, but the question of justice and equity must be considered. In discussing equity in taxation the attempt has been usually to find some single principle that will serve as a criterion of justice, rather than to decide it on the same basis as economic justice in general.

Since justice in political economy centers principally in distribution, it may be worth while to consider in what justice in distribution consists, and see if it may not throw some light on taxation. There are four proposed bases of distribution, each of which claims to represent ideal justice :

(1) Distribution based on existence, or absolute equality.

(2) Distribution based on labor, no account to be taken of differences in ability.

(3) Distribution based on wants.

(4) Distribution based on service or production.

But there are also several ideas as to what service should include: (1) The products of labor alone; (2) The products of labor and capital; (3) The products of labor, capital and land; (4) The products of labor and such land and capital as are acquired as the result of one's own industry, frugality and foresight.

The present system aims at distribution according to service, and service is interpreted to include the products of land and capital as well as labor.

The economist is by calling a utilitarian, and naturally bases justice on expediency, or the greatest good

to the greatest number. This principle, rigidly applied, seems to support the main features of the present system. Moreover, there is no other idea of justice upon which any of the important features of the present system can be justified. Neither wages, interest nor rent can be justified on any other doctrine of justice.

Society has to face two conflicting interests in deciding upon its system of distribution. The goods in existence at any given time would yield the greatest amount of utility if the marginal utility of all incomes were equal. But it is also necessary to the highest utility that each individual should so apportion his expenditure among different commodities, that the marginal utility of each apportionment should be equal. But in doing this, the consumer will, of necessity, reward different producers differently. Since taxation must affect distribution, if we accept the principle of the "greatest good to the greatest number" as the criterion of justice in distribution, it ought to follow that the least evil to the least number is the criterion of justice in taxation.

From the standpoint of the most perfect equilibrium between different incomes, progressive taxation should be extended even to the levelling off of incomes, for, assuming their wants to be the same, less evil is inflicted by collecting a dollar from a man with a large than a small income. But this would have a repressive effect by discouraging men from entering the more productive callings. This would interfere with the most harmonious individual consumption, and, from this standpoint, progression in taxation would be an evil. The advantage, from the first standpoint, becomes less and less with each extension of the principle of progression, while the evil, from the second standpoint, would become greater and greater. On the whole, only a moderate application of progressive taxation could be justified.

*Discussion.*

Professor William W. Folwell: I sympathize with the general purpose of the paper because I believe that distribution is largely an ethical question. Whenever you raise the question of distribution, you raise the question of justice. If it is not going to be a fair division, then why discuss the question at all? In that same question we postulate the right of society to control distribution, and individual claim to share in distribution. In the next breath, however, I say that the bottom principle upon which distribution has always taken place and must always take place is competition. In regard to that I think I would be hard-headed enough to suit Professor Hadley. But the competition I speak of is the competition of men, not the competition of sharks and tigers, which results precisely as Mr. Ward has shown. It is the competition of real men in society, in the family, in the state, not that of the old fashioned economic man assumed by Adam Smith and Ricardo. I think it important for political economists to keep their heads level, and while holding to competition as the controlling principle of distribution, not to forget that its actual results are the outcome not of a prime cause alone but of that as modified and mitigated by an unknown number of secondary causes.

Professor George Gunton: In discussing the subject of an "ideal distribution" one is forced to consider the question of value, as the equities of distribution center at that point. Very early in his paper, Professor Carver referred to the "Cost of Production School" as antiquated and passed it by as one of the theories that belong only to the past. I at once felt ancient. The cost of production theory is indeed very old but not nearly so old as the fact itself.

I have some difficulty in thinking of an economist discussing value and ignoring the cost of production. One might as well attempt to be scientific and ignore experimentation and verification. Before we go very far with our theorizing we should test our theories with some facts. We should try to see what actually happened in the various actions and reactions that bring value into existence.

If Professor Carver had attempted to imagine himself going into business he would have found cost of production to be a very important factor in the price-making process. If he were a practical man he would ask first: What is it the community would like that I can furnish? Is it shoes? Having satisfied himself of the first important fact necessary to value, viz., that there is a demand for the product, he would begin to consider the conditions of supply. He would immediately come face to face with the fact, whether he had anticipated it or not, that to supply shoes involved cost, and he would be compelled to decide quite emphatically that if those demanding shoes would not pay for them the equivalent of what they cost he would refuse to furnish the supply. If the cost was a dollar a pair, the value would have to equal that or the people go without shoes. True, this fact is very old. It is as old as the human race. It is as old as the first effort ever made to satisfy human wants and it is as new as the last.

If Professor Carver refused to count with this fact he would probably soon be numbered among the bankrupts. Any theory of value which ignores the cost of production may itself be safely ignored for all scientific purposes.

As to "ideal justice" I confess to not being absolutely clear as to exactly what ideal justice is; but it seems to

me that in the sphere of exchange we get very near to what ideal justice is when we establish an exact *quid pro quo* relation. It is certainly not far from strict justice to give the equivalent of what we receive, and *vice versa*. Is there anything in human experience that brings about a more absolute *quid pro quo* relation than the equality of cost in exchanges? If I serve the community I want an equivalent for what I have given. The question is, "What is the equivalent of that service?" What that service cost me. There is where the point of equivalence rises. The things exchanged are very dissimilar in all other respects; indeed, their very dissimilarity is the inducement for exchange; but however unlike in all these qualities there is a point of exact similarity in the ratio of per unit cost of production. In that is bound up all that enters into what I gave in performing that service. If it is wages, it is all that enters into furnishing my living, because that is the cost I undertook in order to render that service. The equivalent then is the equivalent to what I am. If I am a ten cent a day man, then ten cents a day will return to me the cost of what I rendered. If I am a five thousand a year man, then that amount is necessary to give me an equivalent for my service. As a basis for discussing value, cost of production has great advantages over the idea of marginal utility in that it is a tangible fact, susceptible of precise statement and verification. Marginal utility is too fleeting and imaginary for scientific purposes. It can never be located. The moment one attempts to reduce it to fact it vanishes. It is absolutely interminable and undefinable at any given time and place. It is not a primary fact in economic movement but rather an imaginary line. Cost of production, on the contrary, is a stubborn fact in everybody's ex-

perience who tries to serve either himself or society. It is universal, determinate and unavoidable.

Professor Carver: I agree with Professor Folwell that competition is the basis of the present system, but competition is directed by society in the way of rendering service. Men, in society, are not left free, as are plants and animals, to prey upon one another for what they get, but must render society a service for it.

The gentleman (Mr. Gunton) desired us to indicate a case where the principle of marginal utility actually applies. Perhaps it would answer the same purpose if he would indicate a case where it does not apply. Marginal utility, instead of being fleeting, is so definite and substantial that it will wreck any business that ignores it. To manufacture shoes at a cost of five dollars a pair will not necessarily enable one to sell them at that price. But I was glad to see him give up the cost theory of value in his discussion of abstinence in regard to capital.

#### THEORIES OF VALUE IN THEIR APPLICATION TO THE QUESTION OF THE STANDARD OF DEFERRED PAY- MENTS.

BY FRANK FETTER, PH.D., CORNELL UNIVERSITY.

Mention was first made of the various standards that have been suggested as proper to secure a just payment of long-standing debts. For the commodity standard which is the one almost universally employed, there is not presented a demonstration of its power to return equal values—yet this power is in general tacitly assumed. Examination readily shows that the commodity standard does not answer the test. The total utility